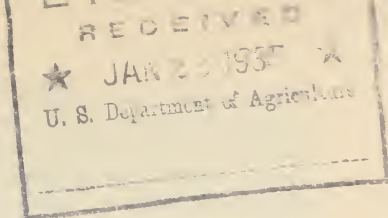


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UNDERCONSUMPTION OF GOODS—A CHALLENGE TO THE NATION

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SOME time ago I expressed the thought that the genius of the American people will not be content while unemployment and underconsumption are companions. I meant that the genius of this country can never be satisfied with measures that restrict production of useful goods as a complete and permanent policy while a potential demand in available markets exists that would be vitalized if men and women now unemployed had incomes with which to buy what they need.

Of course, I cannot diagram the precise steps by which our power to acquire goods can be brought to match our capacity to produce them. Our present job in the Agricultural Adjustment Administration is to provide the mechanism through which farmers can work to restore their own buying power. The Nation needs the farmer in the market as a liberal buyer. The farmer, in turn, needs more consumers who are economically able to buy what they need from him.

THE ECONOMIC PARADOX

These obvious statements raise some unanswered questions. The incongruities they suggest do not escape the common sense of the American people. It is the paradox in the situation that will continue to challenge our genius to strive for its correction. Certainly the combination of idle shoe factories and barefoot people does not compliment whatever genius we may claim.

Yet that situation has existed in more or less acute form for years. Our natural resources were abundant. Recently our technical wizardry and our array of physical equipment were amazing. But their results, in terms of national prosperity and in human satisfactions, were sorry indeed. Our economic and social progress had not kept pace with our material progress. We had missed the combination that produces well-distributed and continuing prosperity.

Men, machines, mines, and money were idle. Studies of economists indicate that if all the men and machines made idle by the depression had been at work, they could have produced, during the 5-year depression period, goods and service to the value of 125 to 150 billion dollars, expressed in terms of 1929 values, more than were produced.

In countries where people naively trust to simple and direct action, forms of government have changed over this problem. But wealth still has to come from the labor of human hands and brains upon natural resources, and the wealth has to be distributed equitably and efficiently if it is to be translated into human satisfaction for the many.

THE CENTRAL PROBLEM

We in America resort to ballots instead of bullets. While we do make changes and progress in our economic, social, and governmental ideals, we prefer to adjust our present system so that it will work better and yield a more satisfying life. The American people have not wanted to scrap their economic machine and build it all over again. They would rather undertake adjustments while the machine continues to run.

Franklin D. Roosevelt pointed to the central problem when he accepted the nomination to the Presidency in 1932. He said it was the task of distributing purchasing power to the masses. Without mass buying power, mass production becomes a mockery.

During the year preceding 1929, the privileged few were receiving, in high salaries, interest and dividends, far more income than the average of the masses. By 1929, at the climax of the boom, the financial capital structure had become top heavy, while the "forgotten man at the bottom of the economic pyramid" was not receiving sufficient purchasing power to keep it from collapse.

I have not the space to parade the ghost of the predepression years, the era of false "prosperity", when bread lines were lengthening and one-fourth of our people, the farmers, were steadily growing poorer. The mistakes of that time have a bearing on our present problem. But they are now generally understood.

RESTORING PURCHASING POWER

The problem is: How can our millions of unemployed be put back to work, and how can the resulting increase in purchasing power be so distributed that the workers who produce this added wealth can afford to buy back that wealth? Give purchasing power and a feeling that it will continue and the consumption of goods is bound to take place.

That is why the "new deal" has so concerned itself with spreading purchasing power and assuring economic security. In a measure it has succeeded. The relentless onset of depression has been checked. Four million persons have reentered employment that is largely self-supporting. A substantial part of this recovery is due to the increased buying power of farmers, for, in spite of this year's disastrous drought, the farm cash income for 1934 is estimated at \$6,000,000,000, as compared to \$4,300,000,000 in 1932.

But why are the remaining estimated 8,000,000 to 10,000,000 persons still out of work? The answer to that should point the way to further measures for complete recovery; that is, the kind of healthy economic situation in which everyone who wants to work has a job, in which goods and services are fully exchanged, and in which supply, price, and demand are in relative equilibrium. There are still a variety of factors that seem to prevent this full and free exchange from taking place, but four principal factors are perhaps most obvious:

First. The 8,000,000 to 10,000,000 people who are without jobs are so lacking in buying power that demand for goods and services continues relatively weak.

Second. Until economic security is assured, even those who do have buying power will not spend with the same spirit of assurance which exists in so-called "prosperous times."

Third. The small volume of international trade severely restricts the markets for our farm and industrial products.

Fourth. Price does not have the same interplay with supply and demand in all commodities or in all parts of the price structure. The free interplay that is necessary in a healthy condition of exchange is thwarted by extreme rigidities in some spots and extreme flexibilities in others.

VAGARIES OF PRICES

Let us look at the fourth difficulty. If some prices stay up while others fall, purchasing power, already weakened, is thrown out of joint besides. This dislocation of the economic mechanism is exactly what happened between the historic dates of October 1929 and March 1933.

That is, different industries responded very differently to the same tremendous drop in demand, so far as prices were concerned. In some industries prices remained rigid or sagged only slightly, while in other industries, and in most of agriculture, prices were extremely flexible. In the first group, where the price remained rigid, the rate of production fell. In the second group, where the price was so flexible, rate of production was maintained.

Try to balance the following elements in the depression against each other and see what conclusions you reach:

1. In the case of farm products, the declining effective demand caused lower farm prices and a smaller farm cash income.

2. In the case of industrial products, the declining effective demand caused lower production (instead of lowered prices), thus throwing laborers out of work and reducing their cash income.

The cash income of both farmers and laborers had been reduced, though it happened by different routes. But there is another pair of observations to compare:

1. This reduced income meant only a slightly lowered consumption of farm products (or a lowered ability to buy the same volume), because they had declined in price as cash income had declined.

2. This reduced income did, however, mean a greatly reduced consumption of industrial products (or a lowered ability to buy them), because industrial prices had not declined as cash income had declined.

CONFLICTING ADJUSTMENTS

Unquestionably we can attribute much of the magnitude of the depression to the relative inflexibility of a great body of industrial prices. There are exceptions to the above conclusions, but they do not seriously affect the general statement that adjustment to the depression has taken place in agriculture primarily through price reductions and in a great part of industry primarily through production restriction.

Examples show the contrast between price adjustment and production adjustment. In the construction industry, between 1929 and 1932, prices went down about 16 percent while the volume of construction declined over 60 percent, partly as a result of this holding of prices. Similarly, for capital goods other than construction, the decline in price was only about 10 percent, while the decline in production was over 70 percent. In contrast to this, the decline in agricultural prices was about 60 percent and the decline in production and sales was less than 10 percent.

This comparison perhaps shows us how in some industries almost the full impact of the depression was placed on unemployment and not on price, how it was borne by labor and labor's purchasing power instead of being absorbed by the entire industry. It is reasonable to suppose that the extreme depression in the capital goods industries is to a significant extent due to the failure of prices to adjust, or to the failure of those industries to adjust them.

AIDING MARKET MECHANISM

I do not pass these harsh facts on as an indictment of the industrial groups. I am not joining those who attribute these failures mainly to antisocial practices of business men or even to lack of foresight. The real tragedy in the situation is that business men, because of the situation in which they find themselves, cannot avoid doing what they do. This means that under conditions which have prevailed in recent years the business decisions of individuals do not and cannot be expected to result in a smoothly working system.

Since reduced production and maintained price appear, under existing conditions, to be the best business judgment for the individual, the free market and competition can no longer be relied upon completely as the sole basis of economic organization. Only as the market mechanism is supplemented with coordination by the Government are we likely to get the full and stable use of our resources.

Why does our Nation seem to need this supplement to the market mechanism after 158 years? You have the answer if you will go back into history and consider the gradual concentration of business into great corporations, of farmers into marketing cooperatives, of labor into collective-bargaining associations. These have reduced the area of the free market and have increased the power of individuals controlling these concentrations.

In the manufacturing field more than half the assets of manufacturing companies are held by 200 great corporations. Similarly, 200 companies control 55 percent of the assets of all nonfinancial corporations, including transportation, communication, power, manufacturing, and mining, construction, distribution, etc.

The effectiveness of the market, in other words, has surrendered to the power of individuals to maintain prices and restrict production.

Wide-awake business men saw the need in 1932 and 1933 and others are beginning to see it more and more clearly. That is an indication that our active American genius is expressing itself in the industrial field, and the restlessness of that genius will do more than anything else to solve our basic problem.

PROBLEMS OF A. A. A. AND N. R. A.

The first drive on this problem has centered particularly in the A. A. A. and the N. R. A. The A. A. A. was faced with the problem of a seriously curtailed farm market and a surplus of supply. Its emergency task was to eliminate the surplus so that the production and supply would balance with the effective demand; to raise prices to the farmers so that they would receive from society an income commensurate with their labor—an income which would come back to the industrial workers as the farmer bought their goods.

The objective of the N. R. A. also was to spread purchasing power among the groups which needed it most. There developed some differences between the problems faced by A. A. A. and N. R. A. In agriculture, a return to balance called for an immediate restriction of production of those commodities in which unmarketable surpluses existed, and a lifting of prices. In industry a return to balance called for increasing production and maintaining or even lowering prices. There are no cross-purposes in these two methods. They are complementary. Industry had fallen out of balance in one direction and agriculture in another. The effort was to get them both back again.

The N. R. A. is gradually becoming clear as to its basic objective of increasing both employment and production, but its exact techniques are not yet worked out. It may be necessary to continue action to increase some prices, while skillfully effecting downward adjustments when these will bring more business instead of less.

The initial emergency objective of the A. A. A. has been about reached. We are now in the effort to maintain a balance, not only among the several branches of farming, such as feed crops and livestock, but between agriculture as a whole and industry as a whole. The ingenuity of the farmers was demonstrated in meeting the challenge of the first objective; it should rise equally to the second challenge.

From now on increases in farm income depend largely on the increased buying power of those engaged in industry. As this increase develops the farm income will be boosted, both through higher prices and through whatever increase in production can be consumed by a more prosperous industrial community.

These two are almost economic twins—gross income of farmers and total factory pay rolls. They rise and fall together. In 1929 they were about \$11,000,000,000 each. By 1933 they had fallen, together again, to about \$5,500,000,000. Both have risen together again.

The question is, then, How to increase the income of industrial workers? Some suggest public or civil works as an antidote for unemployment. Business cycles in the past show that full employ-

ment occurs only on the upward swing of the cycle. Confidence in the future, at that stage, induces long-term investment and expanded production. At the other stages of the cycle there is less employment. This unemployment contributes to the swing of the cycle and the fluctuations in prices. Ways must be found to provide employment in periods of slack demand for capital goods.

There are problems. Yes, many of them. But the A. A. A. program has demonstrated how economic devices can be found to make the machine run better. The program, through the benefit-payment processing-tax device, has been self-supporting financially and yet has done good service in increasing farm income and in inducing business activity. It has caused money to circulate with increased velocity, with the result that farmers and city workers are both better off.

Once more I return to my original thought. The genius of the American people was not content with conditions that existed in agriculture for so long. That abiding genius finally expressed itself in a working program. Our same national genius is restless still, with our millions of unemployed.

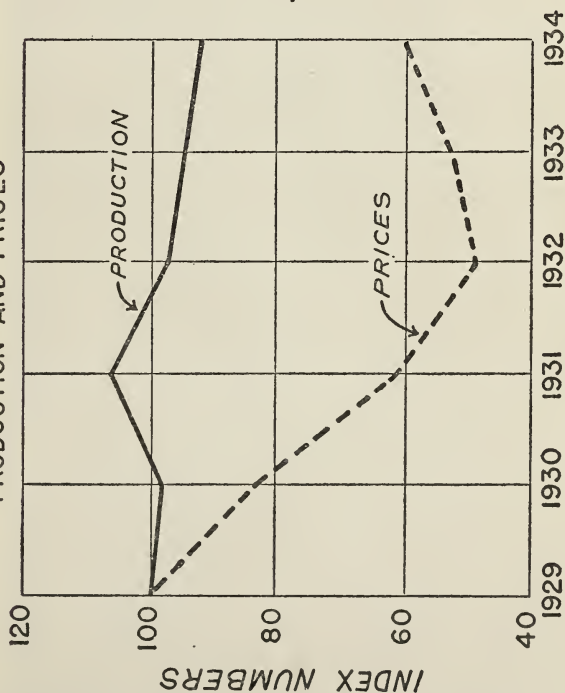
A TASK FOR INTELLIGENCE

If our business men, workers, farmers, and consumers can see the needs of the present not too greatly colored by the ways of the past and will adopt whatever new methods the situation demands, their genius will save the day—just as 3,000,000 farmers participating in their unprecedented program are in the process of helping agriculture make its contribution to general recovery.

I have not discussed here the problem of restoring our foreign trade. This cannot be ignored. But while we are engaging in the slow and difficult task of reviving our foreign trade, we must not be satisfied while a large part of our man power and our rich resources and our marvelous physical equipment remain unused. This waste of human energy and the accompanying deterioration of human beings are the greatest wastes of all. American genius will not be content with that.

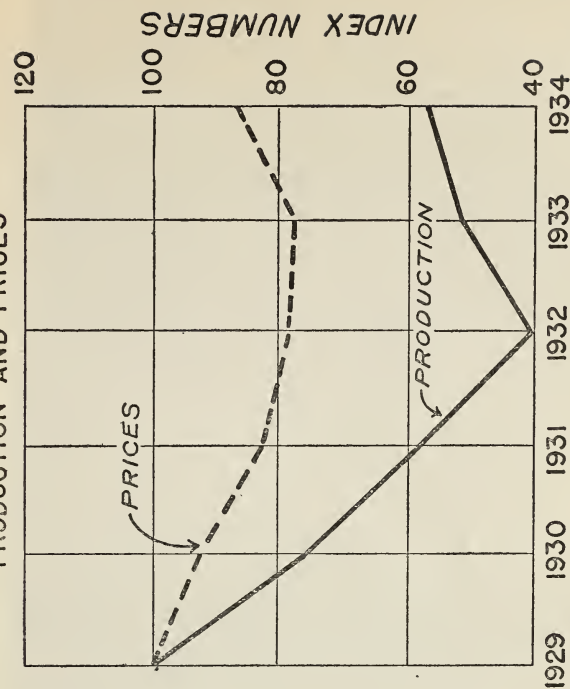
AGRICULTURE

PRODUCTION AND PRICES



INDUSTRY

PRODUCTION AND PRICES



Two vital graphs bearing on the problem of underconsumption.

